

The Quarterly Review of COMMERCE

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CONTRIBUTORS

HAROLD W. JOHNSTON

Harold Johnston, the writer of the article, "Problems of Executives in Foreign Subsidiaries," is in the Canadian sales organization of Chrysler Corporation. He was formerly with the Massey-Harris Company and in this connection spent some years in France, Germany and Denmark.

DOUGLAS J. WILSON, PH.D.

Douglas Wilson, who wrote the article, "Psychological Aspects of Market Research," is Instructor in Psychology at the University of Western Ontario.

AUSTIN GRIMSHAW, M.B.A.

Austin Grimshaw wrote "Some Observations on Investment Banking." He has been Research Assistant at the Harvard Graduate School of Business Administration since he received his degree from that school in 1934.

CONTRIBUTORS—Continued

ARTHUR G. DORLAND, PH.D., F.R.S.C.

Arthur Dorland, whose commentary, "Through the Windows of the World," appears in this issue, is Professor and Head of the Department of History at the University of Western Ontario.

CECIL C. CARROTHERS, B.A., LL.B.

Cecil Carrothers wrote the article, "Legal Comment." He is Lecturer in Business Administration and Law at the University of Western Ontario, and is a member of the law firm of Carrothers and McMillan, London.

THE BUYING HABITS OF USED CAR PURCHASERS

EDITOR'S NOTE: *The used car problem in North America has always been an acute one for the industry, and is especially so at the present moment. All the automobile firms recently changed the date for introducing new models from the spring to the fall months. The primary motive in this move was to overcome low labour employment during the winter months. From a social point of view the executives in the industry deserve our commendation. One product of the change has been the undue accumulation of used cars in the hands of dealers.*

This survey was made by Messrs. Smith, Bythell, Adams, Duff, Hunter and Quinlan as a part of their work in the Sales Management course at the University of Western Ontario. It was summarized for presentation in this review by Beverley E. Smith and Randal K. Bythell.

THE increasing significance of "trade-ins" as the determining factor in profits for the automobile industry has been well demonstrated by the fact that five used cars must be sold to effect the sale of two new ones.¹ With the importance of this problem in mind, a survey into the buying habits of used car purchasers was recently conducted in the London area with results as presented in the following pages.

Total 1935 transactions in London approximated 1,800. Of these, one hundred and forty purchasers were interviewed. From the questionnaires (for a copy see page 57) obtained

in this manner, one hundred and four were accepted as free from misrepresentation and used as the basis for answers to the seven questions set forth in the succeeding sections of this review. Accuracy of results was tested, wherever possible, by the use of cross-checking questions. Analysis was based on three breakdowns as given below:

(a) Price of Car Purchased:

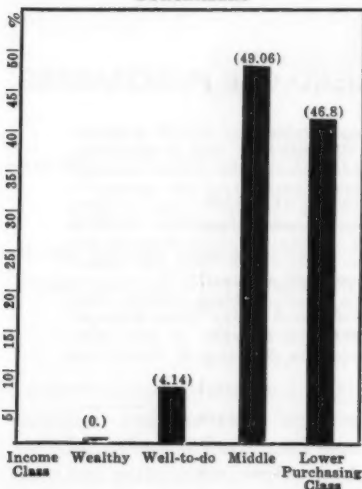
- Group 1—\$100 and less.
- Group 2—\$100 to \$300.
- Group 3—\$300 to \$700.
- Group 4—\$700 and over.

(b) Income Classification:

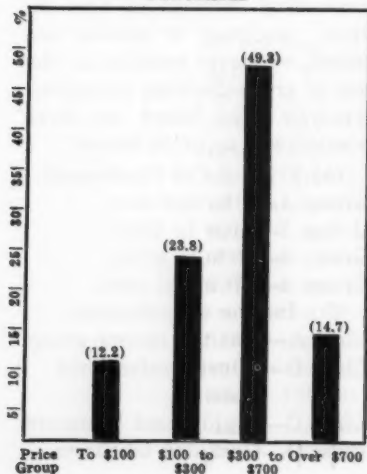
- Class A—Wealthy income group.
- Class B—Upper professional class.
- Class C—Highly paid labourers.
- Class D—Unskilled labourers.

¹Consensus of four automobile dealers in the City of London.

INCOME CLASSIFICATION OF USED CAR PURCHASERS



PRICE CLASSIFICATION OF USED CARS PURCHASED



(c) Age Classification:

Group 1—30 years and under.

Group 2—30 to 50.

Group 3—50 and over.

Who Are the Purchasers of Used Cars?

The bulk of used car purchasers belonged to classes C and D of the income groups though, strangely enough, the average purchase ranged between \$300 and \$700.

Why Are Used Cars Purchased Rather Than New Ones?

As might be expected, price was the dominating factor in all but 18% of used car purchases; 59% ascribed their purchase to price alone, nearly all of them belonging to class D; 89.4% gave a new car preference—generally within the low price group represented by Plymouth, Ford and Chevrolet. In only 49.1% of the cases did this preference agree with the used car actually purchased. The difference serves to emphasize price as the prime motivator.

A tendency to trade up, that is, to purchase a more expensive car, was exhibited by 69% of the

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BUYING MOTIVES BY INCOME CLASSIFICATION

Income Class	Price	Price and Depreciation	Depreciation	Price and Trading-up	Trading-up	Business	Second Car
1. Wealthy	0	0	0	0	0	0	0
2. Well-to-do	44.0	44.0	0	12.0	0	0	0
3. Middle	56.6	11.8	7.6	7.6	4.4	7.6	4.4
4. Lower Purchasing Power	79.3	6.8	3.5	3.2	3.5	2.1	1.6

purchasers. This statement must be qualified by a consideration of price changes over a period of several years as gaged by a comparison with similar price changes in the new car field.

What Features Are Looked For in a Used Car?

Economy of operation was stressed by 44.4%, while 35.8% gave mechanical reliability as the feature to be most desired. That over 80% mentioned one or other of these factors may be ascribed to the preponderance of class D in the sample. While economy of operation and mechanical reliability were factors in all classes, B and C purchasers indicated some interest in riding comfort and appearance.

FEATURES LOOKED FOR IN A USED CAR PURCHASED BY PRICE CLASSIFICATION

Price Group	Appearance	Riding Comfort	Reliability	Economy
To \$100	13.4	0.0	24.2	62.4
\$100 to \$300	16.2	0.0	26.3	57.5
\$300 to \$700	8.3	5.6	44.4	41.7
Over \$700	22.2	16.7	33.3	27.8

How Is Contact Effected Between Buyer and Seller?

The major factors in making contact between buyer and seller were salesmen (37%) and displays (32%). Only 18% were conscious of any pressure exerted by advertising in the accepted sense and 13% acted upon the advice of disinterested parties. Though such a result would seem to reflect upon the efficacy of advertising in publications, by radio and by word of mouth, as a selling factor, there was no way of checking its influence as a primary motivator breaking down sales resistance in advance of actual sales contact.

A price analysis indicated that salesmen were the first point of contact for sales over \$500, while the purchase of cars under this price was suggested by advertising. Such information may be interpreted as a neglect of salesman follow-up in the lower price classes by dealers. With

the increased sensitivity of purchasers to advertising of the lower price groups, adequate sales follow-up should bring immediate results. The use of such a policy as a means of selling higher priced cars is indicated by the fact that only 34% actually bought the car advertised. In other words, advertising served as a price leader in 66% of the cases affected in any measure by this medium.

CONTACT BETWEEN BUYER AND SELLER
BY PRICE CLASSIFICATION

Price Group	Salesman	Display	Adver- tising	Word-of- Mouth	Total
To \$100	0.0	4.8	3.2	4.2	12.2
\$100 to \$300	12.4	5.7	2.7	3.0	23.8
\$300 to \$700	12.3	20.6	12.1	4.3	49.5
Over \$700	12.3	0.9	0.0	1.5	14.7
Total	37%	32%	18%	13%	100%

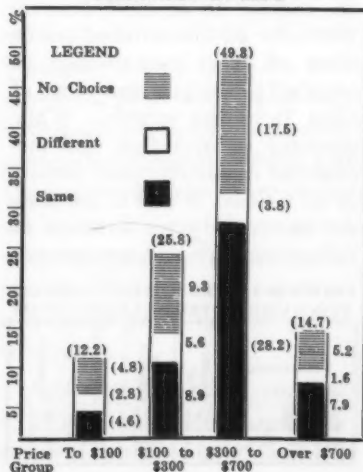
Once contact was established, it was found that 61% of purchasers were sold by the first dealer approached. The fact that more were not sold may be attributed to the shopping tendencies of those primarily interested in price.

Is There a Case For Brand Loyalty in Used Cars?

Since only 41% of repeat purchasers bought the same make of car as they had previously driven and since only 48.4% of all persons interviewed actually

purchased the car of their original intention, the case for brand loyalty would appear to be rather weak. There is an indication of brand consciousness, however; 60.6% of all cases had a particular make of car in mind before any contact was established with dealers. That such a number had definite preferences may be ascribed to the effectiveness of advertising as a medium for educating the public to the merits of a particular brand. When broken down by price classification this brand consciousness was found to increase with the upward trend in prices; that is, brand conscious-

BRAND LOYALTY EVIDENCED BY PUR-
CHASERS BUYING THE CAR
ORIGINALLY IN MIND



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ness tends to vary directly with price of the product sold, in the same proportion as the price motivator varies inversely.

What Are the Attributes of a Good Dealer?

To obtain a satisfactory answer to this question, the purchaser was asked for reasons influencing his purchase from a particular dealer; 48.5% purchased on the strength of special offers. Of this number it is interesting to note that 46% were under thirty years of age and 62% under forty, also that purchase valuation in 62.5% of the cases was under \$400.

Reputation for square dealing attracted 34.5%. Breakdown by age groups and purchase evaluation brought a striking contrast to the results obtained for special offers. It was discovered that 50% of those purchasing because of dealer reputation for square dealing were over forty and 83% were over thirty. By price classification it was found that 88.5% of purchases had a valuation over \$400.

These two factors alone, attracting as they do 83% of all purchasers, give very definite indication of the proper appeals

to be made in the used car market. Generally, it may be said that low-priced cars may best be sold to purchasers under thirty on the appeal of special offers. High-priced used cars stand their best chance among purchasers over thirty with sales appeal based on the reputation of the dealer.

Strangely enough, service reputation ranked in only 9% of the cases under review and dealer loyalty in only 24.5%. The latter figure checks closely with the 20% result obtained from repeat purchasers alone.

REASONS FOR PURCHASE FROM A
PARTICULAR DEALER BY AGE
CLASSIFICATION

Age Class	Dealer Loyalty	Special Offers	Reputation For Square Deal	Reputation For Service
Under 30 Yrs.	18.8	48.8	21.8	50.0
30 to 39	31.2	15.4	17.2	33.3
39 to 50	25.0	21.8	39.2	16.7
Over 50	25	16	21.8	0

REASONS FOR PURCHASE FROM A
PARTICULAR DEALER BY INCOME
CLASSIFICATION

Income Group	Dealer Loyalty	Special Offers	Reputation For Square Deal	Reputation For Service
Wealthy	18.7	0	0	0
Well-to-Do	50	0	4.2	0
Middle	31.3	43.3	34.8	33.3
Lower Purchasing	0	56.7	61.0	67.7

What Are Some Popular Dealer Headaches?

From a percentage point of view the two questions aimed at obtaining some idea of purchaser dislikes in dealers were not as successful as expected. Of the total number of questionnaires, only 13.4% contained definite answers to both. The very nature of the questions, however, should guarantee a certain degree of accuracy, since each demanded a definite explanation rather than an opinion.

The question, "Why did you not buy from your former dealer?" brought a 49.2% return. It will be noticed that nearly half (48%) had definite questions on price as indicated by the answers, a better offer from another dealer, too low a trade-in allowance or too high a price. Such opinions may be interpreted as a tendency to shop around for bargains. The largest percentage (21.9% were interested in better offers from other dealers. The fact that such offers existed would seem to illustrate the highly competitive nature of the market and the possible willingness of dealers to lower prices to a dangerous level in order to effect a sale; 16.1% were of the opinion that the dealer did not allow enough for trade-ins and

the remaining 12.4% thought he charged too high a price. Two explanations of the high price theory are suggested; the last car purchased was a cause of dissatisfaction or the purchaser had compared prices in the course of a shopping tour.

The second largest group gave sharp business practices (9.2%) or personal dislike as the reason for not returning to their former dealer. Class D most frequently mentioned sharp business practices, while class C softened the feeling to personal dislike.

REASONS FOR NOT PURCHASING FROM THE PREVIOUS DEALER

(a) Better offer from another dealer	21.9%
(b) Too low trade-in allowance	16.1
(c) Out of business	12.4
(d) Private purchase of a former car	12.4
(e) Wanted a car dealer did not have	9.2
(f) Too high price	9.2
(g) Sharp business practices	9.2
(h) Personal dislike	6.4
(i) Removal of Purchaser	3.2

Most people were reluctant to name specific dealers from whom they would not buy. Of the one hundred and four questionnaires, only 13.4% named definite dealers, though many others admitted that these were dealers from whom they would not buy.

Though from the questionnaire the explanation of adverse dealer attitude is rather obscure, it is thought from personal observation that credit restric-

tions are at the root of the trouble in many cases. The opinion is based on the remarks of persons interviewed. Such a situation appears to arise from a lack of sympathy between the credit and sales departments; 80% of those expressing dealer grievances belonged to class D. This fact did not prevent them from owning cars averaging \$500 in price. Such a state of affairs can only be brought about by consistent overselling and can only lead to ill-will and loss of reputation when the credit department is called upon to do its duty.

In a summary of the foregoing analysis it was concluded that:

1. Used car purchasers generally belong to income groups C and D, though the average purchase ranges between \$300 and \$500.

2. There is a tendency to trade up.

3. Used cars are bought almost entirely on a price basis.

4. Contact between buyer and seller tends to be made in price ranges above \$400 by salesmen; under this price by advertising.

5. Price leader advertising

was found to be a useful method of making contact.

6. Brand consciousness exists in the used car market, though the price motive prevents brand loyalty to any great extent.

7. Mechanical reliability and economy of operation are the two most desirable features in a used car.

8. Good dealer strategy consists of

(a) The use of special offers to sell low-priced cars to purchasers under thirty.

(b) Reputation for square dealing as an appeal to purchasers over thirty of higher - priced cars.

9. The commonest dealer dislikes are all related to price and the purchaser's ability to pay.

QUESTIONNAIRE

1. What make of car are you driving at the present time?
2. Is it your first used car?
3. If not, when did you purchase your last used car?
Year? Make? Price?
The same dealer or different?
4. Why do you buy a used car in preference to a new one?
(a) Price
(b) Depreciation

- (c) Trading Up
- (d) Second car
- (e) Business Reasons

5. Was the idea of purchasing a used car suggested to you by:

- (a) A salesman
- (b) Advertisement
- (c) Someone who told you
- (d) Seeing a car displayed

If so, did you buy the first car brought to your attention?

6. Did you go to more than one dealer? How many?

7. Did you have a particular make of car in mind?

What make? And why?

- (a) Appearance
- (b) Riding comfort
- (c) Mechanical reliability
- (d) Economy of operation

If you were purchasing a new car what kind would you buy?

8. (A) Did you buy your car from this dealer, because of

- (a) Dealer loyalty
- (b) Special offers
- (c) Reputation for square deal
- (d) Reputation for service

(B) Why didn't you buy from the same dealer as your previous car?

Is there any dealer from whom you would not buy?

PROBLEMS OF EXECUTIVES IN FOREIGN SUBSIDIARIES

HAROLD W. JOHNSTON

THE opportunities of employment for Canadians in other countries and particularly in Europe have decreased in the past few years, and were never very numerous. Canada is, however, definitely an exporting country—both of primary products and manufactures. There will, therefore, inevitably be a need for Canadian representatives in foreign countries, particularly to develop markets. Conversely, this nation is far from being a self-contained economic unit and finds it necessary to import essential raw materials and commodities. Therefore, it may safely be assumed that there will be opportunities, probably increasing in number, for profitable and interesting employment abroad. These activities will absorb a few professional men, particularly engineers; others will undoubtedly seek fortune in far away lands, as independent doctors, dentists or lawyers. The Diplomatic Service of Canada is limited in size and in financial

opportunity, and cannot therefore be regarded as a career for more than a very few specialists. Probably the most interesting possibility for such employment has been and is the organization of Canadian Government Trade Commissioners. Expanding foreign trade has meant that many University graduates of the past fifteen years have found a place in this division of Foreign Trade. Unfortunately, new appointments are very few for the time being and applicants at the examinations held at intervals are very numerous.

In certain respects the main problems met in each of these fields are the same, but, as will be easily seen, vary in degree of importance. To the Canadian, discouraged by our deplorable educational system, language seems the prime difficulty. Adjustment to foreign climates, foods and living conditions is also of importance. The handicaps, or it may be advantages of foreign laws, credit and banking systems, business routine, and

business prejudices, are usually underestimated. The executive or representative finds far greater responsibilities and less supervision than in a similar ranking post in his home country.

The past half century of American and world progress has led to an industrialization beyond the dreams of successive leaders in commerce. As a result of this one can trace parallel processes of penetration into foreign markets in a dozen manufacturing fields. Sewing machines, furnaces, farm machinery, plumbing devices, safety razors, adding machines, soaps, and automobiles, to name at random a few articles, have followed similar lines in the development of their place in international trade. The speed of this movement has been affected in each case by the nature of the article, the industrial development of the particular foreign field and the laws and demands of each country. The successive stages are briefly as follows: first, a domestic market is developed and a certain success attained; second, through advertising, reputation or a positive demand, a foreign connection is made usually through an agent or jobber; third, in the case of semi-permanent articles, the home

companies usually form their own foreign sales organization; lastly, the article is manufactured and distributed entirely within the foreign country. Obviously, less bulky articles, such as soap, chewing gum and those manufactured from raw materials easily obtainable in several markets, tend to combine the last two steps of this series. Similarly, through extreme specialization, branch automobile plants, Canadian plants excepted, seldom manufacture complete vehicles, and in the few instances where the foreign factory produces complete units they are of a type peculiar to the particular market.

Naturally, Canadian representatives of any concerns whose export trade is at the early stage of its development have problems far different from those of members of the usually very complete foreign organizations of firms in the latter stages. For example, a representative visiting Scandinavia to establish a distributing outlet for air conditioning equipment would find his evening clothes almost as necessary as his price lists, and infinitely more useful than his Swedish-English lexicon. But if a salesman were transferred from the Canadian to the Swedish subsidiary of an internation-

al soap manufacturer, he would need to learn Swedish on the ocean liner and prepare to confine his interests for months to every phase of Swedish life, probably restricting his Anglo-Saxon friendship to business associates, not through lack of other possible acquaintances but through policy and choice. We will presume that as a background he has a thorough grasp of office organization and routine, a fair knowledge of manufacturing and costs, and experience in distribution. He will have been told that all records, forms and routine in each subsidiary company are exactly as developed and used at the home office, but it will be suggested that these stupid foreigners are incapable of following these excellent systems and of giving the required detail. Few young executives approach a foreign appointment without a deep-rooted feeling that they will find outworn methods and stupid prejudices. They are invariably correct. The same executives, however, would have found as much fault in any domestic branch to which they were transferred had the foreign move not eventuated.

In most European countries there are laws still in existence

regarding books and records that if taken at their face value would render a modern office impossible. For instance, carbon copies of documents after the strict interpretation of the law cannot be used as evidence. Therefore, it is a fact that in many law offices in Germany there are old-style letter presses and smeared copies are taken off all letters sent out. Of course, properly attested carbon copies *are* acceptable and only very meticulous old lawyers would advise otherwise. Similarly, each country has its own regulations regarding the form and registration of documents, and in France it is absolutely necessary to know what contracts and returns are required to be on "papier timbré" which costs 1½ cents a sheet. In France all business life is far more formal than in England, Germany or Scandinavia. The office manager is a petty tyrant, and every workman is strictly on his dignity and anxious that no one should underestimate the importance of his position, be it scavenger, bank director, or janitor, which is probably to a foreigner the most obnoxious snobbery. A good rule in Europe or America, however, is to take individuals at their own value. It is, never-

theless, a shock to read on Danish tombstones "Mr. Master Carpenter Jensen lies here," or to be introduced at your first formal Swedish dinner party as Mr. Soap Manufacturer Smith, and all evening hear all remarks addressed to you prefaced by the same title, as, "How does Mr. Soap Manufacturer find the climate here?" It is vastly important in the Scandinavian countries to address everyone with his proper, business or professional title, and everyone has a title. To a lesser extent in Germany and Central Europe similar care must be exercised, but it is no longer necessary to interlard casual conversation with such terms. Of course, the above remarks do not refer to inherited or conferred titles of nobility or earned military rank. Etiquette prescribes formal use of the latter in business or social intercourse. Obviously, the newcomer to these Northern countries must determine at once what title he is qualified to use and make sure that his business associates are in agreement on the point.

To the average Canadian or American, foreign exchange is a closed book, and the fluctuations between Canadian and U.S. dollars seem arbitrary and only of minor personal interest.

But of very paramount importance to the foreign representative are the daily quotations of six to ten or more currencies. Even a comparatively small business transaction may involve financial entanglements that never enter into a similar deal, no matter how large, in the home country. This, then, is one of the first items a newcomer must learn. The monetary systems themselves are, of course, comparatively simple, excepting only the English currency. No Canadian forced to use sterling for calculations for a short time will ever have another word in defense of our Anglo-Saxon system of weights and measures. Both are anachronisms, but either could now be altered to a decimal system only at very great expense. The presumably thoroughly trained Canadian accountant, however, will find books kept in several currencies, all fluctuating, a very real problem. To complicate that, Germany, Central Europe and Russia, although nominally on the gold standard, have supported currencies, and a German mark or a Hungarian pengo does not represent an equal number of cents if purchased in London or sold in the issuing country. Of course, Germany and to a lesser extent other na-

tions have been forced to adopt a multiplicity of monetary units; there are script marks, tourist marks, resort marks, bootleg marks, as well as gold marks to complicate the picture. Closely connected with this currency problem, involved by the post-war inflation and culminating in the successive desertions of the gold standard, are the restrictions by several nations of foreign credits, investments and commerce.

It has been suggested, above, that the laws, particularly commercial, of the various countries must be studied. It cannot be emphasized too strongly that in Canada or any other country the responsible executive must himself have studied at least the rudiments of commercial law. Too many English and Americans in business in Europe are entirely at the mercy of their landlords, and even of their clients. Lawyers are necessary, but the tendency here and abroad is to be lax in personal business. The status of a widow when there is no will, of a tenant on a nine year lease, of a sub-tenant in a flat; what constitutes a contract; what are the registration requirements for foreigners; what is the procedure to collect a debt — these are a few of the

problems that no lawyer's "yes or no" can solve. Then, too, common sense, although always a help, provides no answer when one is speaking a foreign tongue and hears unfamiliar statutes and extracts quoted, with no experience to judge their relevance. Almost every country has regulations as to what constitutes the legal books of any business incorporated or otherwise. There is a certain government supervision and usually the general journal must be in solid binding and registered at some government office. The law probably demands that "the books of the company shall be certified and each page registered." Taken literally, this would preclude the use of loose leaf or card ledgers. In practice, usually, the minute book and the journal recording the annual closing entries and balance sheet are so treated, and evidence that any system of books is properly kept will be sufficient to allow them to be used as evidence in litigation. However, it must be emphasized that the very best legal advice is necessary to make sure that operations in a foreign country are within the law and that the form of branch or subsidiary is the one best fitted for the purpose. Changing opera-

tions often necessitate a new form of incorporation. Taxation of dividends and income is a vexing question for subsidiaries or agencies. Many American corporations have paid huge sums in duplicate taxation and transfer fees when no actual transfer has taken place. Restrictions on the export of capital from many countries have resulted in millions of dollars being frozen, largely through lack of the proper advice at the time of the investment or when the first attempt to withdraw the capital was made. A business maxim runs that no sale is complete until there is a satisfied customer and the money is in the bank. Any foreign representative will be faced with additional problems as has been indicated in getting the money banked and making sure his home office will get it ultimately—and even if he is not confronted with the major problems immediately upon entering his new task, he will realize that his local problems must be studied so that he may fulfill his responsibilities to his home office. He may find the new language and living conditions so difficult that he cannot even touch the larger problems. Many are incapable of learning or understanding a foreign language, and the pecu-

liar approach to languages in our secondary schools handicaps those with average ability. For the sake of the soap manufacturer we will hope that before his trip to Sweden he already had a background of German and a facility for reading and making himself understood in at least one foreign tongue. After the second, additional languages are comparatively easy. No foreigner in Canada could hope to accomplish anything until his English was adequate, and a Canadian in any other country is under a corresponding handicap.

If language is the first difficulty, living arrangements are the second. Foreign work multiplies the daily cares of the household, and a disposition to criticize, to make comparisons with Canadian methods and to demand Canadian brands of canned goods has wrecked many a promising married career. Bachelors can be comfortable anywhere and at comparatively little variation in expense. Bachelors used to living abroad who marry Canadian girls soon learn how little worries cause homesickness. And, inevitably, every move even between comparable cities in Canada means increased expense for a household until it becomes adjusted. Most firms

recognize this fact, but the extra allowances made are for an all too short period. This adds an incentive to the effort to become acclimatized.

It is unnecessary to detail the dangers of strange diets to weak characters or digestions. Few have lived abroad for any time without learning to respect the food and drink habits of other nations, and few have travelled from one country to another repeatedly without learning that temperate habits are necessary in food as well as drink. Hungarian paprika, Italian salad and cooking oils, French sauces, German fruit soups and Danish schnapps all are excellent but require training to assimilate. Many a good Canadian executive has fallen victim to his digestion and found his efforts in the in the foreign field nullified.

Those who take a live interest in every phase of life at home are invariably the most happy and successful abroad. To offset the perils of diet and the rocks of household vexations they have the excitements of exploring strange peoples and environments. It is not always possible for the foreigner to penetrate every circle in his adopted country, but every effort is amply repaid. A study of customs and

history makes pleasurable business trips where friendly contacts are limited and the village inn appears cheerless.

The increasing restrictions and complexities of foreign trade for the past five years merit a separate story. Each country has developed barriers, and none has been logical in its application of subsidies, tariffs, quotas, of the hundred and one panaceas for unemployment, farm relief, commodity prices, and international trade. Every foreign representative is confronted by one or more of such problems. The difficulties he must daily surmount to keep any share of his market are entirely unappreciated in Canada. To these possibly temporary barriers to commerce, the manufacturers in America doing an export business five years ago owe the terrific shrinkage if not extinction of their foreign sales.

Such are some of the problems peculiar to transacting business in a foreign field. Some of the more obvious difficulties have been neglected altogether, and those described have been treated very sketchily. A last word of warning may not be amiss. The days of exploitation of foreign markets are almost past

and no quick fortunes can be expected through such means. The qualifications for success in a foreign country are the same as are required at home, perhaps higher. Monetary rewards are not appreciably greater than for similar positions in Canada, the expense is invariably much higher, but the experience for

those who enter wholeheartedly into such a venture is unequalled. Many expatriates find upon return to Canada that life here no longer satisfies them, but the majority are better qualified by their foreign experience to develop their social, business and, it may be, public life in the country of their birth.

PSYCHOLOGICAL ASPECTS OF MARKET RESEARCH

DOUGLAS J. WILSON

THE rise of modern industry was marked at first by an emphasis upon production. The general utility of the article manufactured being assumed, the efforts of experts were directed to increasing the amount produced, to reducing the relative cost of production, and to maintaining a standard of efficiency arbitrarily established. With an increasingly widespread distribution, however, advertising rapidly developed into one of the major concerns of producers. At first advertising aimed chiefly at a description of goods in terms of utility, durability and economy. In other words, the emphasis was and perhaps still is, upon the product. Under these conditions it quickly transpired that much advertising turned out to be "blind," and hence futile and wasteful.

Market research as a centralized means of examining critically the *what* of manufacturing, the *where* of advertising and the *how* of selling, arose from vague and rather unorganized efforts to estimate quantitatively the present and predicted marketing

conditions. More recently the notions of preparing future markets and the securing of information concerning customers' wants and attitudes, have been incorporated into the program of market research. Accordingly, beginning with emphasis upon the product, modern business has, at last, turned to a consideration of the consumer. The former demanded the contribution of physical scientists and engineers, the latter demands the contribution of psycho-technologists. For over and above the many economic problems involved in market research, psychological problems constantly recur and these can only be approached by psychological techniques. As yet these techniques have not been worked out, largely owing to the recency of the development; the writer knows of no textbook dealing specifically with the psychological problems of market research.¹

These problems centre around the characteristics of the con-

¹This conclusion is confirmed by a similar statement in J. G. Jenkins: "Psychology of Business and Industry." P. 317.

sumer with a specific reference to his "buying behavior." Obviously the process of buying is very complex and in many instances paradoxical. A young man who requires advice on buying ties may purchase a car or a diamond ring on an hour's notice. At present, therefore, we can only resort to very general categories of factors that are operative in any buying act.

The best ones known to the writer are those of P. F. Lazarsfeld² of Vienna. This author suggests these factors:

1. Attributes of the article.
2. Tendencies of the customer.
3. Motivating influences.

Until very recently market research would have been content to turn over to production experts the first of these classes. Let the engineer decide how a car should be built, let the paint expert decide the color schemes, let the artist design the lines and the appointments of the car and so on. The major difficulty here is that the modifications have usually had to occur gradually. Note that we still have running boards on our cars! Engineers and designers have not yet been able to carry the lateral evolu-

tion of the car out of the horse and buggy stage in spite of their daring changes in the longitudinal direction. The most notable research known to the writer aimed at discovering customer preferences is that of the General Motors.³ Unquestionably, if enough demands are made by customers for more seating capacity and less external appendages, even running boards may disappear! In addition to entertaining the wishes of the customer and incorporating them into future products, such research also suggest focal points for sales efforts in advertising and selling.

It is possible that the attributes of an article will continue to be left to technical experts in many fields at least. But the other two sets of factors suggested are undoubtedly psychological in nature. The approach to these problems will reflect current psychological theory. For example, owing to the former emphasis in psychology upon general human characteristics, many efforts in advertising were, and are directed towards tapping general or basic tendencies. Many lists of such tendencies were provided by applied psychologists that were

²P. F. Lazarsfeld: *Harvard Business Review*, 1934.

³*Customer Research, General Motors, 1934.*

supposedly appropriate to all purchasing situations. We should appeal to security, or pride, or the emotions and so forth. Experimental evidence for such lists was usually lacking for the commonly overlooked reason that there was none. With the shift in emphasis to a recognition of individual differences, however, the keynote of research aimed at determining buying tendencies is now *specificity*. That is, what are the determining factors in buying *this* type of product? The anti-social stigma of bad breath is much more powerful than an appeal to general cleanliness. Other examples readily come to mind. The techniques suggested for obtaining these data are chiefly of the questionnaire, interview or direct observational types. Occasionally an experimental trial of specific advertising is attempted and results computed accordingly.

The focal points of interest for market research with respect to the last of the three sets of factors, viz: the motivating influences, will be concerned with the actual buying act as well as with advertising. For convenience we may describe these interests under three headings, as follows:

Motivating Influences

(A) Degree—Rigidity of buying habits vs. plasticity.

(B) Quality—Vehicle of advertising, source of suggestion, nature of appeal.

(C) Time factors—Stages of relative influence.

(A) The degree of influence possible both in advertising and selling will vary with the product. A man may change more readily from one brand of tobacco to another than he will from one make of car to another. Specificity again is the keynote with respect to the product and the community contemplated. What is the possibility of influencing your particular customer in the direction of your particular product? This is a matter for research, not speculation. What is true of razor blades won't be true of steamship services. What is true of New England may not be true of Alberta.

(B) The quality of advertising and sales appeal is probably the most important of the motivating influences. The most effective vehicle—whether magazine, newspaper, poster or radio—must be determined empirically. The radio, for example, appealing as it does to the intimate home circle, is peculiarly

fitted for advertising intimate products or those associated with the home. The source of recommendation again varies in effectiveness. For some products any celebrated or notorious name has motivating power especially with the rabble. Other products, such for example, as building equipment must be recommended by experts. In choosing one of these two types one cannot afford to guess. Lastly under quality, is the detailed nature of the appeal. No general rules of content can be laid down, as already suggested in our discussion of tendencies. For example, should an advertisement or a sales talk appeal to logic or to the emotional life of the customer? This depends on whether one is selling lingerie or locomotives. In general, then, the problems confronting advertising and selling will have to be met individually by market researchers, although accredited techniques may be transferred from one field to another.

(C) Time has been shown to be important in several directions. Thus the lapse of time between advertising and follow-ups is an effective variable. Moreover, there are stages in the buying deliberation that are not uniformly significant. Most people, for instance, have their

mind made up as to the make of a piano they want very early in their planning. They may, however, decide upon a make of washing machine relatively late in the proceedings. Probably less is known about the temporal sequences in buying behavior than about any other phase. Sales efforts, however, must be adjusted to the known peculiarities of deliberation.

Summary

Market Research, arising out of the needs of effective distribution, has rapidly passed from merely an economic stage to one of social and psychological proportions. The three factors influencing a customer's buying are: first, the attributes of the product; second, the underlying tendencies in human nature; third, the particular modes of motivating buying activity. Each of these provides problems of research. Techniques are not yet common, though suggestive examples are available. The chief emphasis in future research will undoubtedly be *specificity*. This will reflect itself in products of more variable attributes, advertising of more particularized appeal, and selling methods appropriate to individual instances.

SOME OBSERVATIONS ON INVESTMENT BANKING

AUSTIN GRIMSHAW

IN bringing the securities of a new company to market, the investment banker and the consulting engineer have in the past ordinarily acted in rather close union, especially in the earlier stages of the promotion when the economic feasibility of the project is being investigated; but the ultimate decision as to whether or not to underwrite has naturally always been entirely in the hands of the former. Any realistic interpretation of the history of promotion must recognize the significance of this *entente* without union, with the banker in control and the engineer, although subordinate, retaining his autonomy.

The colossal failure, in the past decade, of many of our blithe promotions is directly traceable to flaws in the form of this association between engineers and investment bankers, the more noteworthy flaws being:

1. Autonomy of the engineers.
2. Subordinacy of the engineers.

3. Education of the engineers.

4. Education of the bankers.

5. Insufficiency of penalties for error.

At first glance this listing appears to be an attempt to pin onto the engineers most of the blame for the failure of issues of the promotional type. To the extent that the engineers' estimates of earnings have been faulty, they are to be censured; but since the bankers have been in control, it has clearly been their duty to assure themselves of the soundness of the engineers' reports. Because investment bankers have failed to provide machinery for checking the engineers, the entire organization has failed to provide reasonable security for the investing public.

The key to this failure to provide machinery seems to lie in the autonomy of the engineers. For some reason, we humans are prone to accept without question and with the utmost respect the mere opinions of persons independently

engaged in professions in which we have not been trained, whereas we view with deep scepticism the opinions of our own subordinates even though their training may have been identical. This scepticism, which results in careful checking of the soundness of the subordinates' methodology and thinking, clarifies the principal's own thinking and brings his own common sense to bear on the problem; and furnishes a check which considerably lessens the possibility of serious error. Also, scepticism toward subordinates breeds a further safeguard in its tendency to cause principals to educate themselves in all departments of their businesses.

The autonomy of the engineer, however, has made the investment banker less sceptical of the opinions of economic feasibility expressed by members of his own organization and has caused him to substitute for it blind confidence in the ability of outside consulting engineers to furnish him with correct answers. This failure to educate himself in the engineering aspects of his underwritings and to apply his own common sense and judgment has led him to float issues which sober reflection would have shown had no possibility of success. It is hard

to see how any banker with a remnant of scepticism could have accepted without question some of the reports of consulting engineers in, for example, the warehouse, toll-bridge, and railroad fields in the United States.

One engineering firm in the warehouse field used to get its estimates of demand for storage space in a city by multiplying the population within a radius of fifty miles of the city by a per capita square footage constant, and by then recommending that the amount of storage within the city be brought up to, say, three-fourths of this figure by further construction. Their only check on the necessity for the recommended additions was a superficial questioning of a few of the commission merchants in the city, who, being always receptive to plans for increased competition among warehousemen which would lower rates, were uniformly enthusiastic — but signed no contracts. The investment bankers to whom this firm reported, however, took the reports at face value and sold securities to finance the construction of huge terminal warehouses in a number of our larger cities, when any reflection at all would have revealed that the radius of influence of a warehouse varies

with the influence of the city in which it is located, being perhaps five hundred miles for Chicago and twenty miles for Albany, and that there is therefore no constancy of relationship whatever between the population within a certain radius and the demand for warehouse space. Needless to say, a number of the warehouses so financed have been largely unoccupied since the opening day.

Many toll-bridges were financed as a result of engineering reports which assumed that their erection would cause not only the diversion of all traffic from nearby ferries, but also the diversion of a large percentage of traffic over ferries twenty to fifty miles away, plus a large additional increment of traffic brought into existence by the superiority of the new facility. When the bridges were opened, it was discovered that the traffic over the ferries any distance away was not diverted to any great extent, since it was largely composed of local patrons journeying only a few miles who were not interested in traveling twenty to fifty extra miles in order to use the new and superior facility. The engineers had not bothered to make field investigations of the origin and

destination of the traffic on the various ferries, and the bankers had not checked the engineers' methods of logic. One engineering firm had about fifteen such debacles to its discredit, all resulting from failure to appreciate the local characteristics of traffic, and a small group of investment bankers underwrote most of them. One of the worst failures was that of a five million dollar bridge erected more than fifty miles away from a city of any size, connecting towns of much less than five thousand population, with no hinterland.

The nineteenth century closed with a mushroom growth of railroads. The constant procession of receiverships and reorganizations which have been a feature of our economic history ever since are eloquent testimony to the failure of reporting traffic engineers (where any were employed) to gauge the potentialities of the territories traversed. As a result, there are miles and miles of track penetrating barren country which sends little to market and buys less, and more prosperous country so networked with track visiting every hamlet and cross-road that even with the heavy tonnage available, the carrying charges cannot be met.

Most of the unfortunate ventures listed above would not have been underwritten had the bankers retained their faculty for intelligent scepticism, which was atrophied by their too high regard for and dependence upon the intelligence of a class of autonomous, consulting engineers. Many other failures, however, have resulted from the fact that this autonomy is not complete, and the engineer's estimates have been influenced by the knowledge that the banker for whom he is temporarily acting in a subordinate capacity will be happy only with a certain answer. Once the engineer becomes aware of what this desired answer is, he is apt, consciously or unconsciously, to work toward it. In fact, one well known company has long been famous for appraisals reflecting its clients' desires instead of sound engineering judgment. Where it occurs, this subordination of the engineer's judgment presents an even more severe problem than that arising from his autonomy, inasmuch as it destroys the value of the only investigation made in cases where the banker fails to check for soundness.

Why is it that consulting engineers, acting unquestionably in good faith, have made such

grievous mistakes of judgment as those described above? The answer seems to lie in the process through which they have obtained that position of eminence in their profession which allows them to set up as consultants. Most of them have been excellently trained in technical schools and over a period of years have added to this fundamental theoretical training a broad experience in conception, design, construction and operation of large industrial and utility enterprises. The great factual knowledge so accumulated has made them authorities in the fields in which they have worked and the demand for their services in these fields has become of sufficient magnitude to justify the setting up of independent organizations to satisfy it. In the fields in which they have originally developed their technical abilities, they are apt to be consulted often on financial and economic problems as well, since they ordinarily have experience on the business side as well as on the technical. Furthermore, since their engineering knowledge is often universal in its application, they gradually tend to extend their areas of technical consultation. Having formed a habit of offering financial and promotional

advice in their original fields of endeavor, they tend to continue this practice as they expand out of it, not realizing that their business knowledge is narrow and factual and does not rest upon a solid basis of theory, as does their engineering knowledge. Moreover, their primary education along mathematical lines tends to make their thinking rigid and to lower their capacity for logical reasoning in situations where judgment necessarily takes the place of formulas. This is not to be interpreted as impugning the intelligence of engineers, but rather as an attempt to point out the evident limitations imposed by their education and subsequent specialization, as a class; and as an explanation of the underlying reason for the frequent failures of individual consulting engineers to provide investment bankers with sound promotional reports.

On the other hand, faulty education of the bankers contributes to the acceptance of these unsound reports at face value perhaps even more than the already discussed human tendency to overvalue the opinions of autonomous outsiders. The average investment banker probably reaches his position of

eminence by a route embracing a social and athletic preparation in a liberal arts college and a successful interlude as a bond salesman. During the latter period he learns the argot of his trade and observes the surface manifestations of the machinery which grinds out new issues for him to sell. His experience leads him into an overemphasis of the importance of the marketing function, as the engineer's leads him into overemphasis of the technical. Unlike the engineer, however, his earlier formal education gives him no body of theory on which to draw during his later period of practical experience; he must learn to depend entirely on his ability to evolve sound judgments by a process of logical reasoning. Furthermore, even if his reasoning is sound, since he is unacquainted with the activities of issuing companies, he must always call upon specialized business men and engineers for the facts on which to base his decisions as to whether or not to underwrite. In analysing and digesting these facts and the accompanying reports on earnings, he may often discover serious error where it is present by the application of common sense, but he will always to some

degree be handicapped by his own educational and experience limitations, sometimes to the point where he must rely entirely upon outside opinions.

Obviously, therefore, there now is and has always been a crying need for a liaison officer between the engineer-specialized business man on the one hand and the investment banker-marketing specialist on the other. Let us examine first why he is only now being developed; and second, the technique which he must acquire.

The main reason for the failure to develop a satisfactory liaison between the engineer group and the banker group is probably to be found in the insufficiency of penalties for errors of omission and commission in estimating and reporting to the buying public the condition and earning possibilities of companies whose issues are being marketed. The only penalty in the past, except in cases of deliberate fraud, has been loss of prestige and clientele, and even this penalty has been avoided to a large degree by citation and acceptance of exonerating reasons for failure arising subsequently to the issue and therefore supposedly beyond the control of the issuer. In addition, the investing public has seemed

quick to forgive and forget, where the percentage of failure has been kept within moderate bounds.

A secondary reason for the failure to develop a satisfactory liaison has probably been the lack of formal educational facilities for training men suitably. The combination engineering and business curricula offered over the past decade at Harvard and elsewhere have now removed this obstacle.

Perhaps a third reason for this defect in organization may lie in the rapidity with which the investment banking business expanded in the period from 1914 to 1929, with a necessary consequent emphasis on training of marketing rather than liaison organization.

Whatever the reason for past failure to develop the liaison officer, the necessity for minimizing errors of judgment and fact in future security underwritings imposed by the penalties of the new security legislation, make his development essential now. He clearly must have in him something of the engineer, something of the specialized business man and something of the banker. His engineering training must be sufficient to allow him to judge the value of new inventions and

processes, the accuracy of estimated construction costs and appraisals, and operating costs and routine. His specialized business knowledge must be great enough to enable him to evaluate the reasonableness of estimates of gross business, of price scales, of production, merchandising, selling and financial organization and policy, and of opportunities for expansion of old and introduction of new industries. His banking training is necessary to give him the broad viewpoint arising from a proper understanding of the theory and principles underlying intelligent business methods. He will probably have to have,

therefore, both theoretical and practical engineering and business training, and enter the investment business only after an apprenticeship spent in obtaining his practical experience in these collateral lines. The task of developing such men does not appear easy, but it is certainly easier now than it was ten years ago; and a nucleus of such men is already available, competent to fill this difficult liaison post as soon as investment bankers become aware that if they are to operate successfully under our present laws regarding securities, they must rebuild their organizations around them.

THROUGH THE WINDOWS OF THE WORLD

ARTHUR G. DORLAND

The British Elections and Return to a Two-Party System

THE return to power in Great Britain of the so-called National Government in November, 1935, was not only a notable victory for the Conservatives, but may also be regarded as a return to the two-party system in Great Britain, since the Liberals as a party have almost disappeared. Back in the eighties the Irish question created the first serious schism in the ranks of the modern Liberal party, so that for many years there were four parties in Parliament, i.e., the Irish Nationalist, the Liberal Unionist, the Gladstonian Liberals and the Conservative party. In 1906, when Labour first entered the parliamentary lists as a serious contender, there was added a fifth party. The settlement of the Home Rule question, however, by granting Dominion status to the Irish Free State, removed the Irish Nationalist party from Parliament. Ever since that time there has

been a steady defection from the Liberal ranks, either to the Conservative side on the one hand, because of distrust of too radical social and economic changes, or to the Labour side on the other, because of a growing feeling that it was the only group in Great Britain that was showing any constructive leadership either in international or national affairs. Although popular support of Labour was steadily mounting after 1921, the position of the first two Labour governments in 1923-24, and again in 1929-31, was insecure, because they had as yet no clear majority in Parliament over the other two parties, and consequently were largely dependent on Liberal support to keep them in power. With the formation of the National Government in 1931, when MacDonald went over to the Conservatives and a small group of Liberals to save the gold standard and prevent a possible financial panic, Labour again suffered a serious setback in terms of parliamentary

power; though the growing popular strength of Labour throughout the country may be estimated by the fact that approximately eighty-five per cent. of the Opposition forces consisted of Labour, while approximately the same figure represented the popular vote secured by the National Government. Therefore, while the National Government had obtained an overwhelming majority in terms of parliamentary seats, in terms of popular support the Labour party had obviously advanced its position very considerably.

In the last election of November, 1935, Labour was again defeated; but the tendency in the 1931 election of a return to a two-party system was, as indicated above, even more clearly shown in this last election, when 84 per cent. of the Opposition seats in the present Parliament are held by Labour, and 90 per cent. of all seats are held by Conservatives. The principal result of the last election then has been to end the sham of the so-called "National" Government, and to clear the issues before the country by the election of an Opposition strong enough to make itself both heard and felt. Labour has not yet recovered from the defection of Ramsay MacDonald, the

untimely death of Arthur Henderson and the resignation of George Lansbury. Many believe, however, that the new leader, Herbert Morrison, who combines cool common-sense with an unusual grasp of public affairs, will make his mark in this new Parliament. At any rate, the political situation in Great Britain has been clarified and is regarded by many as infinitely preferable to the previous unhealthy condition under which almost anything the Government wanted was rushed into effect by a majority of about four hundred votes.

The New Conservative Government and the League

The time was well chosen by the Conservative party for a general election in the autumn of 1935. It was able to go before the country with a creditable record for its past four years of office, claiming such gains as: a balanced budget, a reduction of unemployment by over a million (leaving unemployment still at about two millions), a noticeable recovery in trade, and the resumption of leadership in international affairs which France formerly had exercised. The critics of the Conservative Government claim, however, that British leader-

ship in international affairs is not so much due to capable Conservative policy as to the increasingly chaotic internal condition of France, and that the Conservative policy in the Japanese-Manchurian question and towards the League of Nations in the Italo-Ethiopian dispute has been both weak and vacillating. This vacillation may be explained in part by the presence of discordant elements in Conservative councils and divergent attitudes with regard to the League, as illustrated by the opposite viewpoints of Mr. Eden and Lord Londonderry. It is generally conceded, however, that the unexpected firmness of the Government in finally backing the idea of collective action by the application of sanctions against Italy was mainly due to the Peace Ballot, by which more than eleven million votes were cast, over ten million favouring the imposition of sanctions against an aggressor. The Peace Ballot, one of the most impressive examples of popular education and propaganda on record, made it perfectly clear to the Conservative leaders that if they did not back the League of Nations another British Government would be elected to do so. This strong League policy advocated by the Conservatives obvi-

ously appealed to many shades of opinion. It appealed to the imperialist who feared Italy was threatening "the life line of the British Empire," to the big navy men who saw in the enforcement of League sanctions an excuse for greater armaments, and also to those millions of British citizens who see the security of Britain, of the Empire and of Europe indissolubly linked with the principle of collective action. As the election returns clearly indicated, this many-sided appeal was overwhelmingly successful.

Although elected quite definitely on a policy of supporting the League, the Conservatives executed a *volte-face* almost as extraordinary as that of 1931, when, elected to keep the country on the gold standard, they abandoned the gold standard within a month after taking over the Government. The second manoeuvre was the no less extraordinary Laval-Hoare "peace plan" of December, 1935, which proposed "to give in one form or another to the Italian aggressor, unanimously condemned by the League, a good half of Abyssinia who, with the approval of the League, was defending herself against the doctrine of force." The loud and perhaps unexpected clamour against

these proposals and the resignation of Sir Samuel Hoare again brought the Conservative Government back to its earlier announced policy; not, however, without casting serious doubts not only upon the sincerity of the Conservative Government, but also upon the good faith of Great Britain in its commitments to the League of Nations and to the some fifty nations that had agreed to support her in the application of limited sanctions against Italy. It may be suggested that one of the principal reasons for this manoeuvre was the desire to bolster up the position in France of Ex-Premier Laval, who at that particular time was facing problems of a most critical nature both in respect to France and the rest of Europe.

The Recent Political Crisis in France

After eight months of office, Pierre Laval resigned on January 22nd. To recall a few of the difficulties that faced his Government is to wonder at the political juggling that kept it in power so long. One of the most critical questions of Laval's regime was the attitude of the Government towards the various *leagues* or armed political groups that have sprung up all

over France as a result of the disturbed economic and political conditions of the past few years. By mutual agreement early in December, 1935, the *leagues* consented to disband, though the special interests and viewpoints that they represent still persist, and may flare up again on a moment's notice. Though only a few of the *leagues* profess Fascism openly, the majority are distinctly Fascist in tendency and are regarded as organizations of the Right wing in French politics. The number and the numerical strength of the *leagues* were impressive. The *Action Française*, the oldest of these *leagues*, is Royalist and is said to have about sixty thousand adherents. The *League d'Action Française* has about six thousand members, including two thousand or more who formed a special militant organization known as the *Camelots du Roi*, who occasionally made front page news by their demonstrations. Another group, the *Jeunesses Patriotes* are said to have about ninety thousand members. The *Solidarité Française* was founded in 1933 by the late M. Coty, the perfume magnate, and claims about one hundred and eighty thousand members, including three thousand "storm troops" in Paris alone.

Then there is the *Front Paysan*, which is backed by the landed proprietors principally of the north and west of France. As a result of this movement country people and farmers are organizing to refuse payment of their taxes, and aim to establish an agrarian party distinct from the old parties, though some who still belong to the *Front Paysan* have also joined the Communists or the *Croix de Feu*. The most active and also the most important of these newer movements is, however, the *Croix de Feu*, which is led by Colonel de la Rocque, and numbers, it is claimed, over seven hundred thousand followers, drawn mostly from young men of the middle and upper middle classes in France. This group has been the most actively militant, having at its disposal a fleet of aeroplanes and holding periodical military manoeuvres both outside and in Paris, on which occasions they have occupied certain key positions in accordance with a definite plan of strategy. Associated with the *Croix de Feu* and strengthening its position further is the *National Union of Combatants*, which has an estimated strength of nine hundred thousand.

Now, since all these *leagues* are fundamentally organizations

of the Right, political parties of the Left in France (i.e. the Radical-Socialist, Socialist and Communist) have persistently demanded the disbandment of these Fascist groups which are armed to the teeth and apparently looking for trouble. As a result, serious clashes have occurred in many parts of France between these Fascist leagues and Left wing groups. At the last Armistice Day celebrations in Paris and more recently at Limoges serious trouble broke out between opposing sides, in which several were killed and many injured. Such happenings have served to divide more deeply the Right and Left parties in France, so that the possibility of compromise or peaceful settlement has been made infinitely more difficult. Moreover, the danger of these militant organizations and the grave consequences of a sudden flare-up may be imagined from the information revealed by the Government Committee of Enquiry set up after the February riots, to the effect that "three Frenchmen out of every four carry revolvers." The unexpected and dramatic agreement early in December of the *Croix de Feu* and the Left parties to disarm and dissolve, saved the Laval ministry for a few weeks longer. But no agree-

ment has yet been reached as to how this is to be worked out in practical detail, and already the Fascist leagues are complaining that they have been betrayed. It would appear, therefore, that the sinister potentialities of the leagues have been scotched, but by no means eliminated.

In addition to the political troubles, the economic depression in France shows no signs of lifting. There has been a steady fall in revenue for the past few years. Business activity has declined, with a consequent spread of unemployment, while foreign trade has sunk to the lowest point since the war. In the eyes of the Leftist groups, the late Government has been but a tool of the great financial interests and especially of the Bank of France. They claim that the terms on which Laval took office were dictated by the Council of Regents of the Bank of France which is composed of bankers and directors of important industries representing the concentrated power of French finance and industry. These interests tried desperately to keep Laval in power and are also behind his successor, M. Sarraut, since they feel that a Government of the Left would be a serious blow to the present financial and economic structure

of the country. The budget passed by Laval for 1936 has also been a source of wide discontent. By means of drastic economies it sought to reduce the expenditure of the previous year by at least twenty per cent. This met with much opposition, especially among civil servants and small-salaried officials, who complain that rising costs of living make further reductions intolerable. Various organizations of public servants, pensioners and small investors have held meetings, protesting against these Government decrees; while in the country under the *Front Paysan*, farmers are organizing to resist payment of taxes, to demand higher prices and a moratorium on farm debts. It was hoped that the drastic economies of the Government and its deflationary policy would reduce the cost of living throughout the country, but there has been little if any noticeable improvement in that direction, while on the other hand the purchasing power of the nation has been seriously reduced. Altogether the problem appears almost unsolvable, and some foreign observers go so far as to suggest a sinister similarity between the political, economic and financial conditions of France today and those that obtained in Germany just before

the fall of Brüning and the advent of the present Hitler regime.

Curiously enough, the abortive Laval-Hoare "peace plan" with Italy of December, and Laval's energetic defense of it before the Chamber, in what has been described as one of the great speeches of his career, served to enhance rather than to discredit his Government, which was upheld by a majority of twenty on a vote of confidence. Perhaps the real reason for the continuance of Laval in power so long and particularly at the time of the withdrawal of his "peace plan" with Italy, was that no parliamentary group in France was willing to assume the responsibility of taking over the government of the country at such a critical time. In fact, the final resignation of Laval on January 22, was not because of his defeat in the Chamber, but rather because of elements of disruption within his own Cabinet caused by the resignation of four of his six Radical ministers, including M. Herriot. However, since neither M. Herriot or M. Blum were willing to form a government, M. Albert Sarraut finally succeeded in setting up a Cabinet which, it is hoped, will have sufficient strength to carry on until the impending elections. M.

Sarraut is a wealthy newspaper magnate. He had a distinguished war record and was Minister of the Interior in an earlier Government at the time of the assassination of King Alexander of Jugo-Slavia at Marseilles, as a result of which M. Sarraut was compelled to resign because it was felt that he had neglected to take adequate precautions. He is not generally regarded as a popular figure, or as having anything like the capacity of Laval. The present Government of M. Sarraut would appear to be more or less a stop-gap until the coming election renders a more decisive verdict.

Behind all this tangled web of economic and political difficulties is one basic problem yet to be faced by any French Government, and that is the gradual breakdown of the existing parliamentary system in France, principally because thus far no politician or parliamentary group has been willing either to cooperate or to make any sacrifices to effect the necessary reforms. The crux of this problem lies in the fact that the present French constitution, adopted in 1873-74, is outworn and is not suited to contemporary French civilization. When this constitution was adopted it was, though re-

publican in form, really intended to prepare the way for a return to monarchical government. For many years after the adoption of the constitution, it was just a matter of touch and go whether the republic could persist at all. Moreover, the constitution was drawn up to fit a predominantly agricultural country such as France was at that time. Since that time France has become a radical republic and a predominantly industrial country. The population which in 1873 had a definite agricultural majority now has a large majority of urban dwellers. Meanwhile, the French state has undertaken a great many industrial enterprises. "It has become," says Professor Bernard Fäy, "a huge, unwieldy machine that works slowly and badly. It has a large number of officials, who are not paid enough, but who have not enough work to entitle them to larger earnings. There should be a thorough overhauling of the whole administrative framework by a wise and firm man, who, in trying to remedy the evils, would not destroy the whole fabric. The internal political situation in France is so involved that nobody can do anything about it. Parliament is getting every day more and more afraid to act; it

simply tries to make as much noise as possible and to stand pat. The country knows well this is no remedy for the present ills, but there is no clear-cut majority in favour of any positive scheme; consequently everybody waits for something to happen." Economic recovery in Great Britain served to purge internal politics of the bitterness which characterized it around 1931, and did this in spite of the growth of the Labour party and its defeat in the last general election. But, unfortunately, in France the steadily growing economic depression has only served to intensify the bitterness, so that when the expected change in government does come, something disastrous might easily happen. But as Professor Fäy reminds us: "It should be remembered that the French people have a way of suddenly setting things right successfully. They do it well, and have come to rely upon this ability." We can only hope, therefore, that the innate commonsense of the Frenchman and his ability to act quickly in times of crisis may come to his rescue at the appropriate moment, and that France will weather successfully one of the heaviest storms to assail the Third Republic since it was launched in 1870.

LEGAL COMMENT

CECIL C. CARROTHERS

THE reference to the Supreme Court of Canada by the Dominion Government of all the more pregnant federal legislation dealing with the control and regulation of business and industry necessitates the postponing of our intended discussion of some of the more interesting acts which are now *sub judice*. The various Provincial Governments have filed their factums, counsel has been appointed by all the provinces, and the fate of the federal legislation previously referred to in these columns is now in the hands of our federal judges.

Under those circumstances, we find that we must confine ourselves to noting some of the more interesting decisions effecting business in Canada which have been reported in the past few weeks. The ever-increasing number of challenges to the constitutional validity of both provincial and federal legislation continues, and we again find the Dominion Live Stock and Live Products Act contained in the

Revised Statutes of Canada, Chapter 120, being assailed in the Supreme Court of Alberta. The facts admitted to the Court were that a large dairy products company was continuing to sell eggs at a flat rate without grading, contrary to the provisions of that act. For a second time since the passage of the act it was held to be *ultra vires* of the Federal Government. It becomes more apparent as the Courts continue to consider such legislation, that amendments to the British North America Act cannot be much further delayed.

Another attack on the validity of legislation occurred in the recent case of Aylesford Fruit Company vs. Nicholas. In this matter an act of the Nova Scotian Legislature providing that co-operative companies could control the marketing of the products of its shareholders was before the Court. Fortunately for the legislation, the Supreme Court of Nova Scotia was able to hold that the by-law of the co-operative company prohibit-

ing the sale to third parties of apples produced by the plaintiff went beyond the intention of the Legislature and constituted an illegal restraint of trade.

In connection with other matters, a decision of some importance to business people has recently been handed down in the western provinces. In the action of Davis against Palleson Company an irregularity of company organization, quite common in Ontario, was before the court. Upon the organization of the Palleson Company, the required organization meetings were not held. The company's solicitor drew up the minutes of the meetings which should have been held and had them signed by certain of the proposed directors and officers, but when the validity of the minutes was attacked, the Court held that, as the meetings had not been held, the minutes could not properly be considered binding on the subscribers. In view of this decision, it would be well for those promoting companies and organizing them to hold meetings and follow the procedure outlined in the organization minutes drawn up by the company's solicitor.

Another interesting case reported recently in Ontario contains a lesson which many of our civil servants, especially those in

small communities, would be well advised to take to heart. In *Ord vs. Public Utilities, etc.*, the plaintiff was the general manager of a local Public Utilities Commission. During the last municipal election part of his time was spent electioneering on behalf of the members of the Commission who were up for re-election. Unfortunately for him, the opponents of the Commission were successful at the election, and despite a written contract for three years' service, the new commissioners discharged the manager. Coming before the Supreme Court of Ontario, the commissioners were upheld in their right to dismiss the servant.

Those of our readers who drive cars will be interested in two cases recently coming before the Court of Appeal of Ontario and a County Court Judge, respectively. They bring to our attention once again and in somewhat decided form the rights of owners of animals that may, while on the highway, be involved in motor vehicle accidents. While the law is fairly clear and well settled, the idea that animals have few, if any, rights to be on highways is widely prevalent. In the case of *Haggerty vs. McIntosh* the action arose out of a collision between

a motorcyclist and one of a number of cows being driven along the highway to pasture. The cows were led by a small daughter and driven by a small son of the owner. In Trial Court, judgment was given the farmer, his negligence not being specified. The Appeal Court, in reversing the judgment, pointed out that the cattle had a right to be on the road when being driven lawfully from place to place in charge of someone. They further pointed out that a motorcyclist, as opposed to a herd of cattle, is supposed to have human intelligence, and they placed the duty on the motorist of driving in such a manner that he can avoid striking cattle on the highway under such circumstances. The case of *Wood vs. Freeman* goes still further in negating the liability of farmers. In that case one of two horses, which had escaped from the farmer's pasture into a ploughed field and thence through an open gate on to the highway, came into collision with the plaintiff's automobile. The pasture was fenced, but the horses had broken down the fence. There was no evidence as to how the gate was opened, although it was closed at eleven o'clock at night, some time before the accident, and the evi-

dence did not disclose that the horses had pushed it open. In these circumstances the judge not only found that there was no liability on the part of the farmer, as there was no negligence attributable to him, but found the motorist liable for the damage to the defendant's horse and gave judgment for the defendant, pointing out that the motorist was under an obligation to show that he was not negligent in hitting a horse on the highway at night.

A decision of the Supreme Court of Canada in the case of *Peggy Sage, Incorporated, vs. Seigel Cahn Company, Limited*, illustrates the ever-widening degree of protection afforded to trade-marks in Canada. The plaintiff company, *Peggy Sage, Incorporated*, was formed in January, 1930, for the purpose of acquiring and carrying on the business of a Mrs. Sage under her trade-mark, "*Peggy Sage*." Mrs. Sage had been established in the business of manufacturing and selling toilet articles and toilet preparations continuously since 1917; and under the trade-mark "*Peggy Sage*" in Canada since 1920. The trade-mark was registered in Canada in 1933. The defendant was incorporated in March, 1932, for the purpose of acquiring and continuing a

business for the sale of toilet articles, and in April, 1932, registered a trade-mark, "Peggy Royal." The products of both the parties were of the same nature, the defendant's, however, being of lower grade and lower price than those of the plaintiff. The containers used were different. The action was brought to expunge the altered trade-mark from the register on the grounds that it misled the public and was an infringement of the plaintiff's trade-mark. On appeal to the Supreme Court of Canada it was held the words

"Peggy Royal," as printed on the defendant's labels, so nearly resembled the device registered by the plaintiff and sounded so much like it, as to be calculated to deceive. Even if the defendant did not intend to deceive and actual deception had not been proven, the defendant's trade-mark should be expunged, if by its resemblance to that of the plaintiff it was likely to deceive the public in the course of its legitimate use in the trade. On these grounds the defendant's trade-mark was expunged.

